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Current Support Brief

FINANCING OF SOVIET FOREIGN TRADE IN 1961



CENTRAL INTELLIGENCE AGENCY

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FINANCING OF SOVIET FOREIGN TRADE IN 1961

Preliminary foreign trade returns for 1961 recently released by the USSR 1/ will show that total Soviet foreign trade in 1961 amounted to \$11,831 million, or 5.7 percent more than the level in 1960. Thus, for the second consecutive year, Soviet foreign trade failed to register the significant increases of the late 1950's. The decline in Soviet trade with Communist China was an important factor in the relatively small growth of trade, as it had been in 1960, and Soviet trade with the Sino-Soviet Bloc as a whole actually declined in 1961. The increase in over-all trade was, therefore, largely attributable to a substantial growth in Soviet trade with non-Bloc countries (see Table 1).

The decline in Soviet trade with Communist China from \$1,665 million in 1960 to \$919 million in 1961 stemmed from declines of \$450 million in exports (chiefly machinery and equipment) and \$300 million in imports (principally products of agricultural origin). 2/ The decline of \$750 million in Sino-Soviet trade more than offset the increase of \$560 million in Soviet trade with its European Satellites, resulting in a drop in Soviet trade with the Sino-Soviet Bloc in 1961 compared with 1960. The \$7.8 billion level in 1961, in fact, was approximately the same as that in 1959 in spite of an increase in Soviet-Satellite trade of more than \$1 billion in the 2-year period.

Perhaps the most significant feature of the foreign trade of the USSR in 1961 was the precipitate increase in its trade with non-Bloc countries. Although Soviet trade with the Bloc has stagnated since 1959, trade with the non-Bloc countries has increased by about \$1.3 billion -- some \$750 million in 1961 alone. Most of the stimulus for the growth in Soviet trade with the non-Bloc world since 1958 has been the increase in Soviet commercial exchanges with the industrial West stemming largely from Soviet purchases of capital goods for its Seven Year Plan (1959-65). In the meantime, Soviet trade with the underdeveloped countries has been more or less stagnant, with the exception of Cuba. Although preliminary data for 1961 published by the USSR provide no breakdown of Soviet trade with individual countries or areas, it is believed that this trade with the underdeveloped countries increased as much or more than trade with the industrial West. This increase was chiefly attributable to a rise of approximately

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\$350 million in Soviet trade with Cuba, thus making Cuba the leading non-Bloc trading partner of the USSR. If trade with Cuba is deducted, it is estimated that Soviet trade with the other undeveloped areas increased only marginally above the level in 1960.

Soviet exports to non-Bloc countries increased by more than \$500 million in 1961, while imports from that area increased by less than \$250 million. Consequently, the USSR mitigated considerably its adverse trade balance of 1960 (see Table 1). In that year, as a result of a considerable increase in imports from the non-Bloc world, particularly the industrial West, the USSR incurred a trade deficit unprecedented in the postwar period. Collateral evidence suggests that, aside from Cuba, a substantial part of the increased exports in 1961 (chiefly products such as petroleum, wood, and grains) were destined for the industrial West, and the USSR restored its traditional export surplus with that area (see Table 2). Imports from the industrial West appear to have increased only marginally, and the bulk, if not all, of the increase in imports from the underdeveloped areas originated in Cuba. Cuba also accounted for a substantial share of increased Soviet exports to the underdeveloped areas.

The USSR traditionally relies on foreign exchange earned from its trade with such countries of the industrial West as the UK to help finance purchases of raw materials from overseas sterling areas and other underdeveloped areas with which it normally incurs large deficits. This deficit is believed to have amounted to about \$150 million in 1961 (see Table 2). The easing of the deficit in 1961, however, failed to have much impact on the level of gold sales by the USSR, at least in the first half of 1961 when the bulk of the estimated total for the year of about \$250 million was sold. On the other hand, many of these sales early in 1961 may have been occasioned by the need to settle short-term obligations incurred in 1960. In that year the USSR sold little more than \$100 million in gold in spite of a mounting trade deficit, and it is believed that much of the deficit was financed through medium-term credits, short-term borrowing on the European money market, and the drawing down of foreign exchange holdings earned from exceptionally large gold sales in 1959.

In the latter half of 1961, very little gold was sold, and except for an \$11 million sale in October 1961, there

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were no reports of Soviet gold appearing on Western markets until February 1962. This situation apparently is a reflection of the successes of the USSR in expanding its merchandise exports in 1961 and of the continuing availability of medium-term credits from Western suppliers. Western medium-term government-guaranteed credits to the USSR increased by about \$50 million in the first half of 1961. 3/ If the performance in 1960 was repeated, there is every reason to believe that an additional \$50 million actually was utilized by the USSR in the latter half of 1961.

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Table 1

Soviet Foreign Trade a/
1960 and 1961

Million US \$						
	1960			1961		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	5,562	5,629	-67	5,999	5,832	+167
Sino-Soviet Bloc	4,082	3,821	+261	4,000 <u>b/</u>	3,790 <u>b/</u>	+210
European Satellites	3,120	2,819	+301	3,422 <u>c/</u>	3,075 <u>c/</u>	+347
Communist China	817	848	-31	367	552	-185
Asian Satellites	147	154	-7	211	163	+48
Non-Bloc	1,480	1,808	-329	1,999 <u>b/</u>	2,042 <u>b/</u>	-43
Industrial West	972	1,070	-98			
Underdeveloped countries	469	731	-262			
Unaccounted for	38	7	+31			

a. Because of rounding, components may not add to the totals shown.

b. Plus or minus \$10 million.

c. Residual

Table 2

Soviet Balance of Trade with the Industrial West
and the Underdeveloped Countries
1955-61

Million US \$							
	1955	1956	1957	1958	1959	1960	1961 <u>a/</u>
Industrial West	+113	+18	+18	+47	+99	-98	+100
Underdeveloped countries	-95	-96	-132	-92	-185	-262	-150

a. Estimated.

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Analyst: [REDACTED]

Sources:

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2. USSR, Ministry of Foreign Trade, Scientific Research Market Survey Institute. Byulleten' inostrannoy kommercheskoy informatsii, prilozheniye no 4 (Bulletin of Foreign Commercial Information, Supplement No. 4), Moscow, May 62, p. 43. U.
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